

# Auto Dealership Buy/Sell Market Begins 2024 with Record Transactions, on Track to Nearly Double Pre-Covid Average

6/24/2024

Dealership buy/sell transactions increased to a record 403 in the trailing twelve months as of March, according to the First Quarter 2024 Blue Sky Report® by Kerrigan Advisors, driven by a rise in the number of sellers coming to market, providing buyers more options for capital deployment

Kerrigan Advisors introduces the Kerrigan Blue Sky Index

INCLINE VILLAGE, Nev.--(BUSINESS WIRE)-- The auto dealership buy/sell market experienced another record quarter with 109 completed dealership transactions completed in the first quarter of 2024 representing 233 franchises sold, up 38% compared to the first quarter of 2023, according to the just-released First Quarter 2024 Blue Sky Report® by Kerrigan Advisors. This was driven by an increase in the number of sellers coming to market, without a concomitant rise in buyers, transitioning the 2024 buy/sell market in favor of buyers for the first time since the pandemic. At this pace, Kerrigan Advisors expects the 2024 buy/sell market to exceed 400 transactions.

"The 2024 buy/sell market remains robust, hitting new records despite high interest rates and declining industry profitability," said Erin Kerrigan, Founder and Managing Director of Kerrigan Advisors. "This burgeoning buyers' market is putting additional downward pressure on blue sky values, particularly as dealership earnings retreat further from their pandemic-induced high. As earnings trend downward, more private dealers are deciding to exit, particularly while their blue sky valuations remain above pre-pandemic levels."

Through the first quarter of 2024, Kerrigan Advisors estimates average dealership earnings declined 7%, resulting in average industry net to sales of 4.5%, 2.2 percentage points below 2022's peak. Much of the earnings decline is a

result of softening new vehicle margins, which ended the quarter 35% lower than 2022, due to increasing new vehicle inventories.

## Kerrigan Advisors Launches the Kerrigan Blue Sky Index

In order to track industry valuation fluctuations since 2019, Kerrigan Advisors has launched the Kerrigan Blue Sky Index, which reflects changes in average industry blue sky values each quarter. For the first quarter of 2024, the Kerrigan Blue Sky Index declined 7% from the fourth quarter of 2023; however, the index remains 80% higher than 2019.

“We are pleased to introduce the Kerrigan Blue Sky Index as a barometer for automotive retail and blue sky values. We hope the index becomes a helpful tool to dealers as they assess fluctuations in their franchise values,” continued Erin Kerrigan. “While the Kerrigan Blue Sky Index is down this quarter, there are exceptions to this broader industry trend. Top import franchises in economically vibrant markets continue to achieve record valuations in today’s buy/sell market, particularly franchises in Texas and Florida.”

The Kerrigan Blue Sky Index is bolstered by Kerrigan Advisors’ industry leading sell-side advisory experience and transaction completion volume: 273 dealership transactions completed since 2014 representing over \$8 billion in client proceeds. The Index is benchmarked at 100 on December 31, 2019, and will be adjusted for changes to average industry blue sky values each quarter.

## 2024 Earnings Considered the New Normal, Blue Sky Multiples Reverting to Historical Mean

During the pandemic there was an inverse relationship between the US public dealer groups’ quarterly earnings and blue sky multiples. Wall Street correctly assumed industry earnings would skyrocket after the fourth quarter of 2020, and publics were trading at an eight multiple. When earnings reached their peak in 2022, Wall Street again correctly estimated profits would normalize at lower levels and thus assumed a low blue sky multiple of 2.9 times peak earnings.

“With industry earnings now normalizing at a more sustainable level, blue sky multiples are reverting to the historical mean, reflecting a return to valuation based on current industry performance, which better reflects future expectations,” continued Erin Kerrigan.

## 2024 Buy/Sell Trends

For the first quarter of 2024, Kerrigan Advisors identified the following three trends that the firm expects will meaningfully impact the buy/sell market this year:

- Private dealers tap into outside equity partners to accelerate growth through acquisition
- Captive finance companies increasingly critical to franchise profits and value
- Fixed operations drives industry profits and blue sky

Kerrigan Advisors expects outside capital to continue to increase its investment in auto retail and to identify exceptional operators to financially support. Through 2023, the number of dealerships owned by private groups with outside capital is up 45% from 2021. When annualizing first quarter 2024 data, the average dealership achieved an impressive 23% return on equity, outperforming the S&P 500 by 110% and on average, auto retail returns have outperformed the overall S&P 500 by 92% on an annual basis since 2016. Clearly, auto retail has proven its case and will draw more capital from outside the industry as consolidation accelerates.

“With these kinds of impressive investment returns outside capital investors, including family offices, high net worth individuals and private equity firms, are actively seeking increased financial exposure to the industry,” said Ryan Kerrigan, Managing Director of Kerrigan Advisors. “Many of these sophisticated investors are attracted to the tremendous consolidation opportunity presented by auto retail’s highly fragmented structure. As of the end of 2023, just 24% of dealerships were owned by the top 150 dealership groups, representing 30% of industry sales.”

Growth limitations placed on the largest dealership groups as a result of OEM framework agreements are also fueling outside capital’s interest in auto retail because they result in a less competitive acquisition marketplace for well-funded buyers.

As the auto retail market becomes increasingly competitive in 2024, franchises that have strong support from their captive finance company will outperform in sales, profit and, ultimately, value, predicts the report. Captives not only finance consumer vehicles, but they also often finance blue sky in a buy/sell transaction, so there is often a correlation between higher blue sky values and a stronger and more supportive OEM captive finance company. In 2023, captives represented 61% of new vehicle financing, a 23% increase from 2022. Going forward, Kerrigan Advisors expects these financial institutions will play a more impactful role not only in vehicle financing, but also in franchise value and the buy/sell market.

Lastly, Kerrigan Advisors expects fixed operations (service and parts) to drive industry profits and blue sky values in 2024. Fixed operations, which is a major contributor to dealership earnings, yields the highest profit margin in the business and its sales growth has outpaced vehicle sales for the last two years. Ultimately, dealerships with the strongest fixed operations and high fixed absorption rates are less reliant on cyclical vehicle sales, making their projected future earnings more reliable and leading to higher blue sky values.

## Toyota and BMW Multiples Increased

For the first quarter of 2024, Kerrigan Advisors increased the multiples for Toyota and BMW as both OEMs continue to effectively and strategically play the industry's transition to new powertrains with successful rollouts of hybrid EV models. Toyota is now leading the industry in hybrid sales with 37% market share in the first quarter, resulting in a 21% increase in total vehicle sales, outperforming the industry by 279%. Kerrigan increased Toyota's multiple .25 to a range of 6.75 to 7.5.

"As a reflection of Toyota's dominant position in the market, the company's share price surged in the first quarter of 2024 as Tesla's has declined since the summer of 2023, validating Toyota's measured approach to the EV transition," said Erin Kerrigan. "It's not surprising that buyer demand for Toyota franchises has increased, resulting in higher blue sky multiples as profit growth expectations for the brand continues to outperform the overall industry."

In the case of BMW, its highly effective rollout of the EV versions of its popular ICE vehicles resulted in a continuation of the OEM's leadership position in total luxury sales in 2024. BMW ended the quarter as one of the fastest selling brands, according to Edmunds, with a 31-day turnover rate of inventory in March. BMW's success managing the evolving luxury market, particularly with EVs, further secures their position as the luxury US leader, resulting in increased buyer demand for the franchise. Kerrigan increased BMW's multiple .25 to a range of 7.25 to 8.75.

## Negative Outlook for Stellantis

For the first quarter of 2024, Kerrigan Advisors reduced its outlook for Stellantis. CDJR continues to underperform the industry in terms of sales, despite an overabundance of inventory. As a clear indication of weak buyer demand, Stellantis franchises in strong growth markets are seeing sharp declines in blue sky values, separating itself from the other two domestic franchises which are seeing greater stability in the market. As a result, Kerrigan lowered its outlook for Stellantis to negative and its blue sky multiple range from 3.0 to 3.75.

## Highlights from the Q1 2024 Blue Sky Report® by Kerrigan Advisors include:

- 109 dealership transactions were completed, resulting in 233 franchises sold, a 38% increase from the first quarter of 2023 and a new record.
- Dealership earnings continue to decline from their pandemic-induced highs, although they are still 97% above 2019 levels.
- Top import franchises in economically vibrant markets continue to capture record valuations, particularly in Texas and Florida. Buyer demand for these rare assets remains strong due to sustained levels of above average profitability supported by robust population growth.
- In the first quarter of 2024, import non-luxury franchises outperformed domestics in new vehicle sales

growth, increasing by 12.5%, more than double that of the total market. Domestic sales declined 0.8%, with average days' supply ballooning to 105 days, driving a decline in domestic new vehicle gross margins.

- Import luxury buy/sell market share rose 145% in the first quarter of 2024 to 27%, up from 11% in 2023 and domestic buy/sell market share declined 35% compared to 2023 full year results.
- As a result of enhanced adoption of data-driven systems and technology, including AI, the Top 150 Largest Dealership Groups expanded their share of the overall used vehicle market to 10% in 2023.
- The US public dealer groups' average blue sky multiple reached 5.3x at the end of the first quarter of 2024, a 47% increase from 3.6x a year ago, driving a dramatic increase in acquisition spending (totaling \$1.19 billion in the first quarter of 2024).
- By leveraging enhanced customer acquisition strategies, innovative technology and AI, the publics' advertising expense per new vehicle retailed is 34% lower than the estimate for the US public dealer groups' average.

The Blue Sky Report®, published by Kerrigan Advisors, is the auto retail industry's most comprehensive and authoritative quarterly report on dealership M&A activity, as well as franchise values. The quarterly report, received by over 11,000 industry recipients in 35 countries, includes analysis of all dealership transaction activity for the year, and lays out the high, average and low blue sky multiples for each franchise in the luxury and non-luxury segments. For more details and to preview the report, **click here**. To sign up to receive the quarterly report, **click here**.

Kerrigan Advisors also releases monthly The Kerrigan Index™ composed of the seven publicly traded auto retail companies with operations focused on the US market. The Kerrigan Auto Retail Index is designed to track dealership valuation trends, while also providing key insights into factors influencing auto retail. To access The Kerrigan Index™, **click here**.

## About Kerrigan Advisors

Kerrigan Advisors is the leading sell-side advisor and thought partner to auto dealers nationwide. Since its founding in 2014, the firm has led the industry with the sale of over 270 dealerships generating more than \$8 billion in client proceeds, including the third largest transaction in auto retail history – the sale of Jim Koons Automotive Companies to Asbury Automotive Group. The firm advises the industry's leading dealership groups, enhancing value through the lifecycle of growing, operating and, when the time is right, selling their businesses. Led by a team of veteran industry experts with backgrounds in investment banking, private equity, accounting, finance and real estate, Kerrigan Advisors does not take listings, rather they develop a customized sales approach for each client to achieve their personal and financial goals. In addition to the firm's sell-side advisory services, Kerrigan Advisors also provides a suite of consulting and investor services including acquisition and expansion strategies, valuation assessments and benchmarking, open point proposals and real estate advisory.

Kerrigan Advisors monitors conditions in the buy/sell market and publishes an in-depth analysis each quarter in The Blue Sky Report®, which includes Kerrigan Advisors' signature blue sky charts, multiples, and analysis for each franchise in the luxury and non-luxury segments. **To download a preview of the report, click here.** The firm also releases monthly The Kerrigan Index™ composed of the seven publicly traded auto retail companies with operations focused on the US market. The Kerrigan Auto Retail Index is designed to track dealership valuation trends, while also providing key insights into factors influencing auto retail. **To access The Kerrigan Index™, click here.** To read the **2023 Kerrigan Dealer Survey, click here.** To read the **2023 Kerrigan OEM Survey, click here.** Kerrigan Advisors also is the co-author of NADA's Guide to Buying and Selling a Dealership.

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Source: Kerrigan Advisors